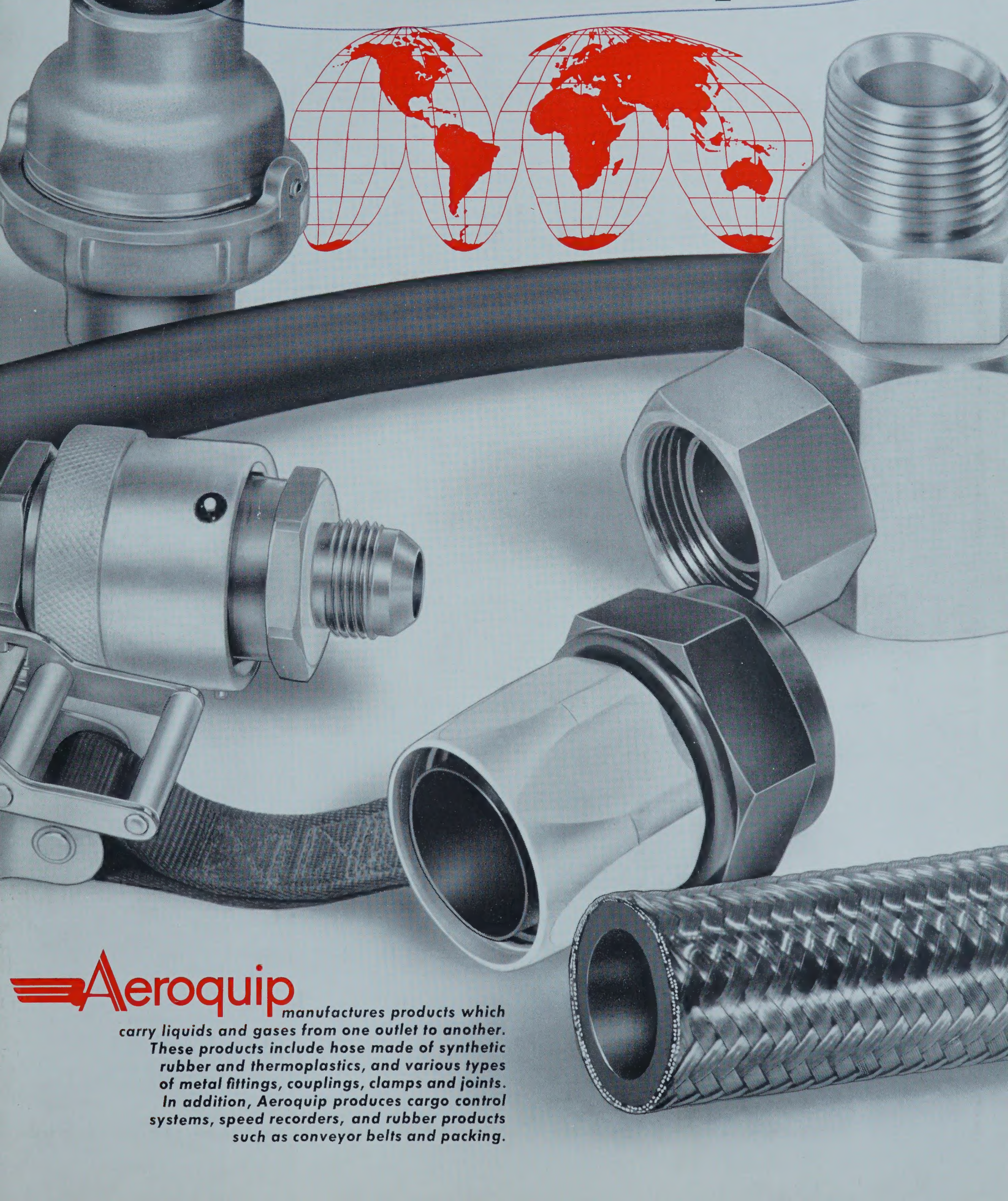
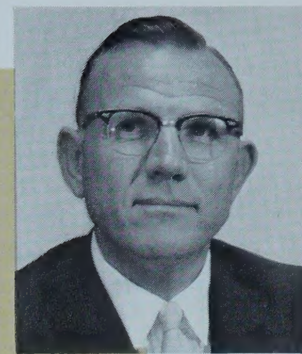
File

AEROQUIP CORPORATION
1967 Annual Report

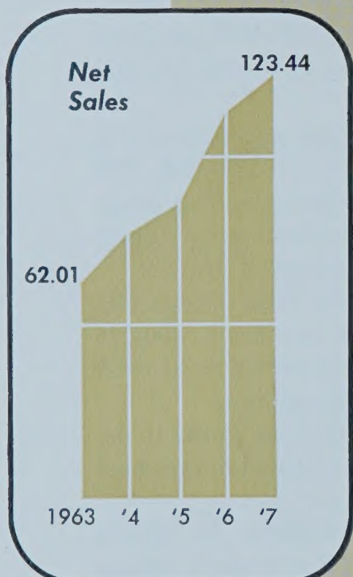


Aeroquip manufactures products which carry liquids and gases from one outlet to another. These products include hose made of synthetic rubber and thermoplastics, and various types of metal fittings, couplings, clamps and joints. In addition, Aeroquip produces cargo control systems, speed recorders, and rubber products such as conveyor belts and packing.

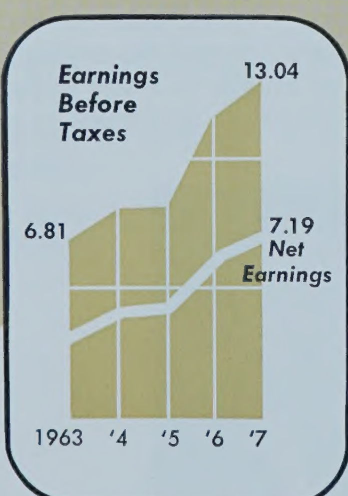
Operating Report

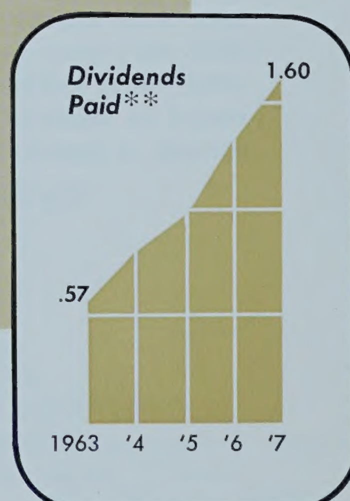


DON T. MCKONE
Executive Vice President



Charts—In Millions of Dollars except per share — Fiscal Years Ended Sept. 30





*Adjusted for stock dividends.
**In addition, stock dividends were paid as follows: 4% in 1963, 1964, 1965; 5% in 1966; and 4% in 1967.

Sales

In the fiscal year ended September 30, 1967, Aeroquip's sales set a new high of $123,-444,427. This was a 9% increase over 1966 sales of $112,780,308.

Industrial markets represented 64% of the total with military sales accounting for 36%. The modest change from the previous year's ratio of 68%-32% reflects the continued high level of military spending by the Government. However, it is important to note that the dollar volume of sales in each of these categories was higher in fiscal 1967 than in 1966.

In management's opinion, any contemplated curtailment in military spending would in time be offset by new and additional requirements on the part of Aeroquip's industrial customers.

Earnings and Taxes

Fiscal 1967 earnings before income taxes were up 12% to a new record of $13,039,255, equal to 10.6% of sales. In fiscal 1966, earnings before taxes amounted to $11,655,885, equivalent to 10.3% of sales.

Provision for U. S. and foreign income taxes of $5,850,000 was equal to 45% of pre-tax earnings in fiscal 1967. In the previous year, income taxes of $5,375,000 constituted 46% of pre-tax earnings. In the 1967 fiscal year, investment tax credits amounted to $261,000, as compared with $181,000 in the prior year.

Net earnings in the fiscal year ended September 30, 1967 totalled a record $7,189,255, which was 14% higher than 1966 net earnings of $6,280,885. Net earnings were equal to $4.30 per share on the 1,671,128 shares outstanding at the end of fiscal 1967, as compared with $3.77 per share the year before, based on 1,664,509 shares outstanding at the fiscal year-end (which is adjusted for the 4% stock dividend paid in September 1967).

In the year under review, net earnings were equal to a 20.3% return on stockholders' equity as of the start of the year. This compared with 20.8% in the 1966 fiscal year.

Dividends

For 21 successive fiscal years, Aeroquip has paid cash dividends on its common stock. In addition, stock dividends have been paid in each of the last 12 fiscal years.

Fiscal 1967 cash dividends consisted of four quarterly payments of 25 cents per share. This annual total of $1.00 per share, aggregating $1,602,676, was supplemented by a 4% stock dividend. The year before, cash dividends amounted to 87½ cents per share, totalling $1,328,492. There was also a 5% stock dividend paid in fiscal 1966.

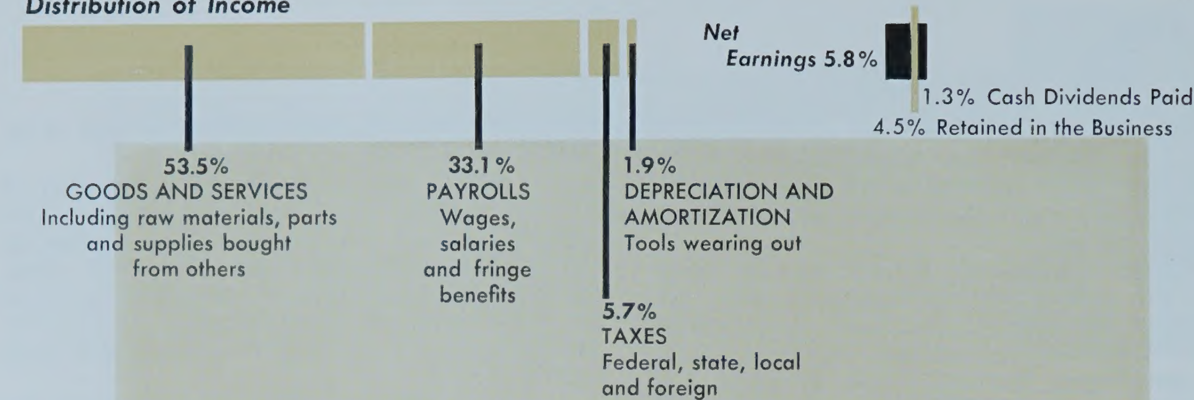
The 1967 stock dividend was voted by the Board of Directors on July 20, payable September 30 to holders of record August 15, 1967. Based on the closing price of the Company's stock on the New York Stock Exchange on the day of declaration, the 4% stock dividend had a cash value equivalent to $2.15 per share.

Financial Condition

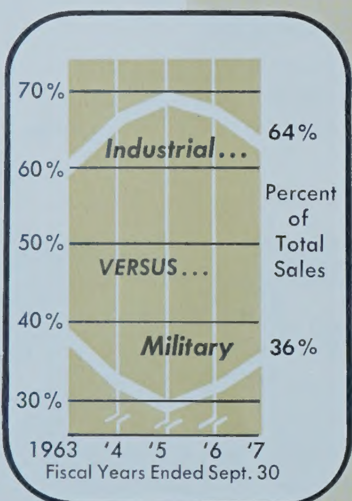
On September 30, 1967, working capital amounted to $37,576,244, which was a new high for the Company. Current assets of $49,190,265

(Top) *Astronaut Al Worden visited Aeroquip's Marman Division in 1967. Shown here (left to right) are Edward Nemoff of the Department of Defense, John M. Van Dam, Vice President and General Manager of the Marman Division, Astronaut Worden and W. R. Alexander, Manufacturing Manager of the Marman Division.* (Right) *Aeroquip exhibit at the Design Engineering Show in New York City, May 1967.*

Distribution of Income



IN AEROQUIP'S 1967 FISCAL YEAR, the Company's 40 largest original equipment customers represented less than 31% of the year's volume. No single manufacturer accounted for more than 4½% of total sales. Aeroquip's business does not depend upon any one individual market.



Flow of Funds

YEAR ENDED SEPTEMBER 30

Funds Came From:

	1967	1966
Net Earnings	**$ 7,189,255**	$ 6,280,885
Depreciation	**2,320,678**	1,879,552
Additions to Long-Term Debt—Net	**9,748,075**	3,785,200
Exercise of Stock Options	**160,455**	266,081
	$19,418,463	$12,211,718

Funds Were Used For:

	1967	1966
Dividends	**$ 1,602,676**	$ 1,328,492
Plant and Facilities—Net	**4,573,795**	4,917,354
Other Assets	**1,071,500**	1,602,042
	$ 7,247,971	$ 7,847,888
Added to Working Capital	**12,170,492**	4,363,830
	$19,418,463	$12,211,718

compared with current liabilities of $11,614,021 for a current ratio of 4.24 to 1. At the end of the previous year, working capital was $25,405,752, with a 2.17 to 1 current ratio.

During fiscal 1967, arrangements were completed for an $18,000,000 three-year revolving credit agreement with the National Bank of Detroit and participating banks. Interest is at the prime rate plus ¼ of 1%. The agreements do not impose any significant restrictions as to working capital, cash dividends or foreign investments.

At September 30, 1967, the unused portion of the revolving credit agreement amounted to $7,200,000, all of which is available for general corporate purposes. The various domestic and foreign banks with which the Company has been dealing for a number of years have offered additional lines of credit should there be a need for further expansion of working capital.

Accounts receivable and inventories at the fiscal year-end were at approximately the same levels as a year earlier despite the increase in volume of business during fiscal 1967.

Capital Expenditures

Outlays for capital improvements in the 1967 fiscal year amounted to $4,876,000, which was about the same level as the year before. All of Aeroquip's divisions and subsidiaries participated in these expenditures.

The balance sheet cost value of Aeroquip's land, buildings, machinery and equipment at September 30, 1967 was $35,001,546 (including about $1,100,000 for land). These assets have increased more than $19,600,000 over the past five years.

Fiscal 1968 will be a period of consolidation during which special attention will be given to maximizing the use of the extensive facilities and equipment added in recent years during the course of Aeroquip's expanded capital expenditures program.

The Company expects that capital expenditures for 1968 will be approximately $4,000,000, but this is subject to change as the year advances.

Review of Operations

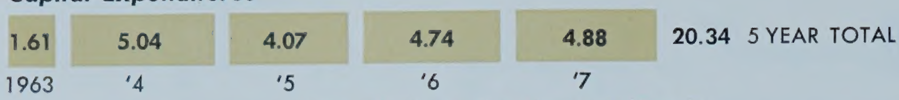
The Industrial Division recorded higher sales and earnings during fiscal 1967. These gains would have been even larger had it been possible to increase supplies of parts in the early part of the year. Several steps were taken at the time to remedy this problem. In November 1966, the Company acquired Kennedy Automatic Products of Marshall, Michigan, a former supplier. Machinery facilities at the Division's Leslie, Michigan plant were expanded. The cold extrusion impact department at Van Wert, Ohio also added to the Division's capacity to manufacture parts to fill its expected requirements. The forecast for 1968 anticipates moderate advances in volume.

The Aircraft Division had another good year in fiscal 1967 as a consequence of more efficient operations. Although backlog was down somewhat on September 30, 1967 from a year earlier, it was still at the second highest year-end level and in a healthier condition than last year when there were a number of overdue orders to be processed. A satisfactory year is in prospect for the Aircraft Division in fiscal 1968, reflecting active markets in commercial aircraft, military equipment and aerospace products.

The Marman Division also registered an improvement in earnings during fiscal 1967. While it is not possible to forecast what gains can be anticipated for the Marman Division in 1968, results for the year will be aided by an aggressive

Development Engineering Center, Jackson, Michigan.

Capital Expenditures



In Millions of Dollars — Fiscal Years Ended Sept. 30

Simplified Balance Sheet

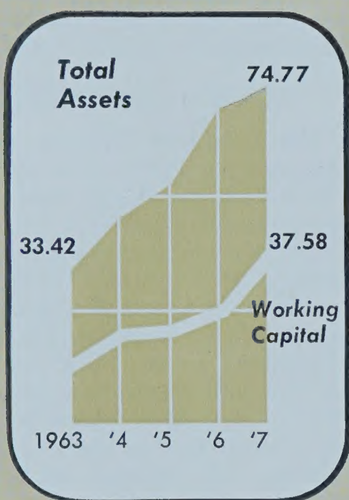
At September 30, 1967

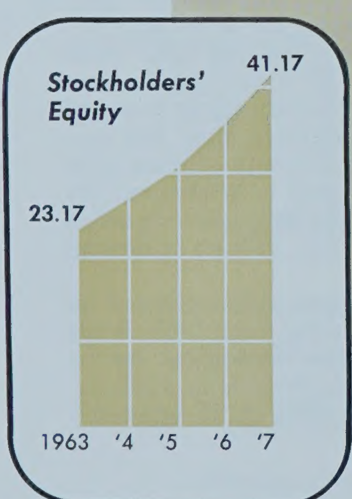
Assets

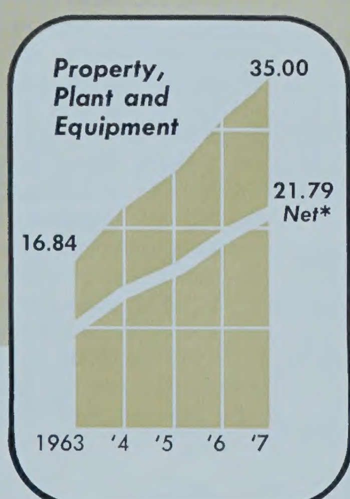
Cash and Temporary Cash Investments	$ 3,301,000
Amounts Due from Customers	15,776,000
Products and Materials on Hand	29,788,000
Property, Plant & Equipment, Less wear and tear	21,790,000
All Other Assets	4,111,000
	$74,766,000

Liabilities

Amounts Due for Payment during the 1968 Fiscal Year	$11,614,000
Long-Term Debt	21,977,000
To Stockholders for their investment in the business	22,467,000
To Stockholders for earnings retained in the business	18,708,000
	$74,766,000



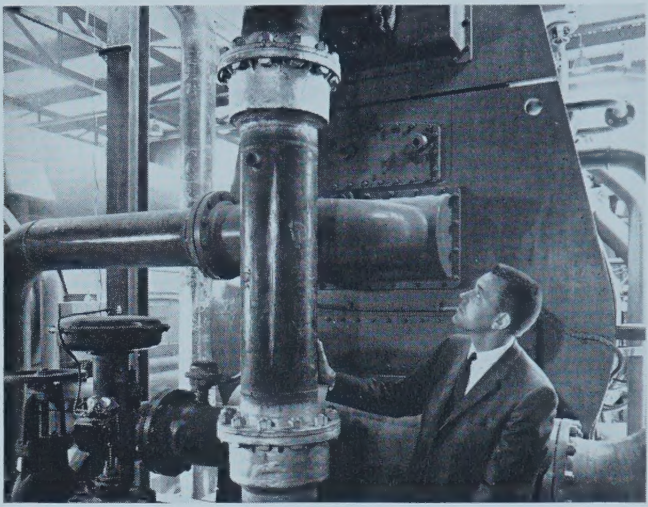


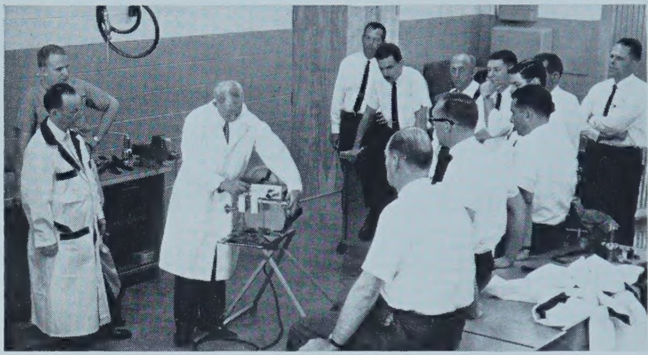


Charts—In Millions of Dollars At End of Fiscal Year

**After Depreciation and Amortization*

(Top) *Barco ball joints are used for the water lines of the vast "Century City" project in Los Angeles, California.*
(Bottom) *Instruction in the operation of a hose assembly machine at the Industrial Training Center in Jackson, Michigan.*





sales program aimed at penetrating new markets.

The Republic Rubber Division has benefited from sizable capital investments made during the past two years. Gains in sales and earnings were recorded in fiscal 1967 and even better improvements are looked for in the current year.

During the past year, the Barco Division added several new and promising products. These are expected to aid the Division in attaining larger gains in sales and earnings during fiscal 1968 than the modest increases recorded in 1967.

Depressed economic conditions in West Germany have seriously hampered the operations of Aeroquip's German subsidiary. Sales in fiscal 1967 were practically unchanged in comparison with the prior year. Unless there is a significant improvement in the German economy, it is not reasonable to expect any appreciable growth in the subsidiary's business during 1968.

Aeroquip's Canadian subsidiary had a particularly good year in fiscal 1967, and even better results are in prospect for 1968. Production capacity has been increased and this should enable operations to move ahead at an accelerated rate.

International Operations

Aeroquip's foreign business showed a satisfactory growth in the 1967 fiscal year. Aeroquip Sulamericana, the Company's unconsolidated Brazilian subsidiary, has moved into new premises in Rio de Janeiro and considerable progress is expected from this new operation. Noteworthy was the increase in sales and profits reported by Aeroquip's associated company, Aeroquip Mexicana. Aeroquip has other associated companies in England and Japan, as well as overseas licensees in Australia, United Kingdom, France, Italy, Japan and Spain.

Sales from exports and from the operations of foreign subsidiaries and affiliates rose 10% in fiscal 1967. Sales of Aeroquip's foreign licensees were up approximately 13% for the year.

Labor Relations

Three major labor contracts were renewed in fiscal 1967. Negotiations were conducted without any interruption of operations. The expiration dates of the new contracts extend from July 1969 to October 1970.

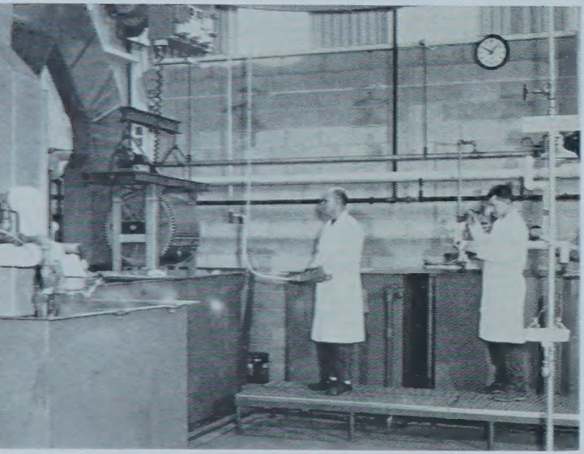
There were work stoppages at two plants in fiscal 1967 but these were settled without any material adverse effect on operations.

Only one labor contract expires during fiscal 1968, on August 1, and this will involve approximately 130 employees at one plant. At an early date, management hopes to initiate negotiations on this contract so as to effect a renewal without any disruption of the plant's operations.

Renegotiation

Sales subject to renegotiation proceedings have been reviewed and cleared by the Government through the 1965 fiscal year. The Company's policy with regard to prices quoted on contracts subject to renegotiation is to adhere consistently to reasonable standards and in that way prevent the possibility of retrospective price adjustments.

Industrial Division



(Upper right) *Checking threads of a socket fitting fabricated on a chucking machine.* (Middle) *Production of tubing parts.* (Above) *Lubrication of cold-headed parts prior to impacting.*

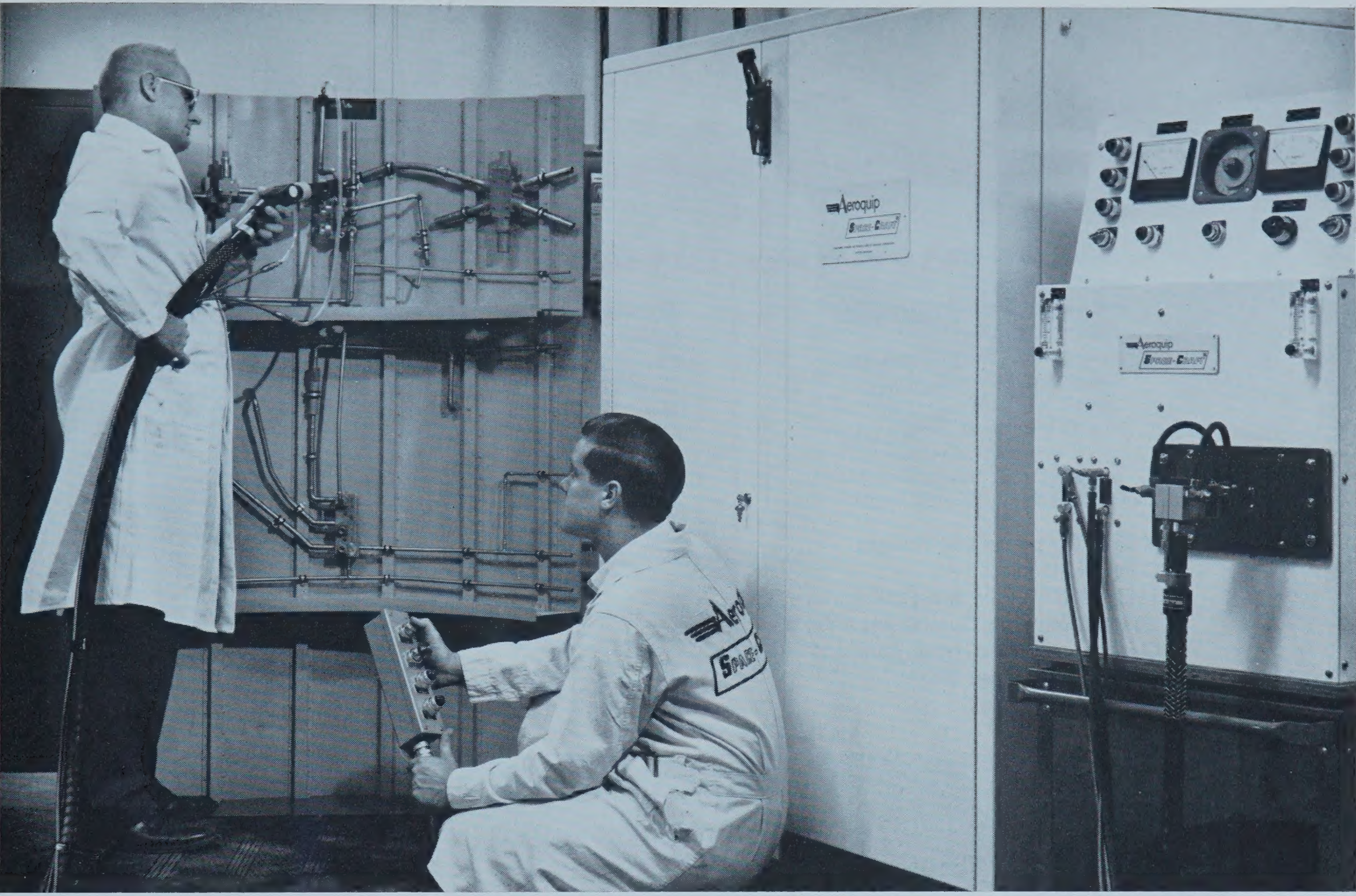
Facilities

Van Wert, Ohio
Reno, Nevada
Dallas, Texas
Portland, Oregon
Cranbury, New Jersey
Atlanta, Georgia
Leslie, Michigan
Marshall, Michigan

Products

- Hose and Fittings:
  all pressure ranges, hydraulic and non-hydraulic applications
- Teflon Hose
- Refrigerant Hose
- Couplings:
  fluid conveying, self-sealing, push-pull, refrigerant, one-shot, cargo transfer
- Elbow and Tubing Assemblies
- Tube Fittings and Adapters
- Flexible Marine Piping
- Automatic Railroad Fueling Units
- Cargo Control Systems:
  ratchet buckles and straps, tracks and fittings, shoring beams

Markets . . . *Trucks and Buses, Construction Equipment, Diesel Engines, Mining and Aggregates, Logging, Materials Handling, Lift Trucks, Machine Tools, Farm Tractors and Implements, Plant Maintenance (all industries), Marine (Ships, Boats and Docks), Processing Industries, Air Conditioning and Refrigeration, Railroads, Navy and Ordnance, Appliances, Buildings and Plants, Petroleum Industry, Fluid Loading Equipment*



Space-Craft brazing operation showing power generator console.

Aircraft Division

Facilities

Jackson, Michigan (2)
Burbank, California
Dallas, Texas

Products

- Couplings: quick-disconnect, fluid conveying, self-sealing, special purpose, aerospace
- Hose and Fittings: all pressure ranges
- Teflon Hose
- Space-Craft Brazed Fittings and Tubing Systems
- Space-Craft Tooling and Generators
- Omniseals
- Aerospace Swivel Joints
- Elbow and Tubing Assemblies
- Cargo Control Products: cargo release hooks, cargo nets and slings, tracks and fittings

Markets . . . *Commercial and Private Aircraft, Navy and Ordnance, Aerospace, Military*

Marman Division

Facilities

Los Angeles
San Diego
Burbank
California

Products

V-Band Couplings and Flanges
CONOSEAL Joints
FLEXMASTER Pipe and Tube Joints
Bellows, Joint and Ducting Assemblies
Clamps and Straps (Hose, Band and Support)
Flanges and Flange Blanks

Markets . . . *Trucks and Buses, Construction Equipment, Diesel Engines, Materials Handling, Lift Trucks, Plant Maintenance (all industries), Machine Tools, Marine (Ships, Boats and Docks), Petroleum Industry, Nuclear, Processing Industries, Air Conditioning and Refrigeration, Railroads, Heating and Piping, Commercial and Military Aircraft, Navy and Ordnance, Aerospace*

A special ducting assembly for an aerospace application is aligned on a checking fixture.

Republic Rubber Division

Hose braiders in operation at the Republic Rubber Division

Facilities

Youngstown,
Ohio

Products

Hose:
- Aeroquip Low, Medium, High Pressure
- Suction and Discharge
- Petroleum Drilling and Transfer
- Marine
- Industrial Hose for all fluids

Rubber Products:
- Conveyor, Elevator and Transmission Belts
- Molded Goods
- Sheet Packing
- Extruded and Lathe Cut Products

Markets . . . *Trucks and Buses, Construction Equipment, Diesel Engines, Mining and Aggregates, Farm Tractors and Implements, Logging, Materials Handling, Lift Trucks, Plant Maintenance (all industries), Machine Tools, Marine (Ships, Boats and Docks), Processing Industries, Air Conditioning and Refrigeration, Railroads, Petroleum Industry*

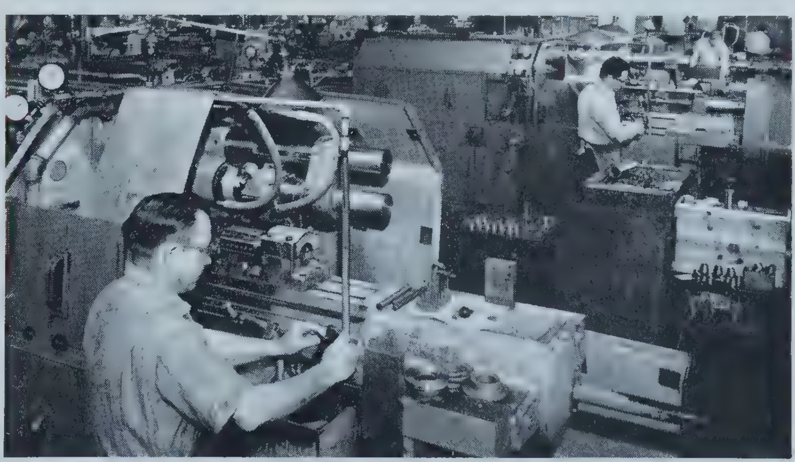
Barco Division

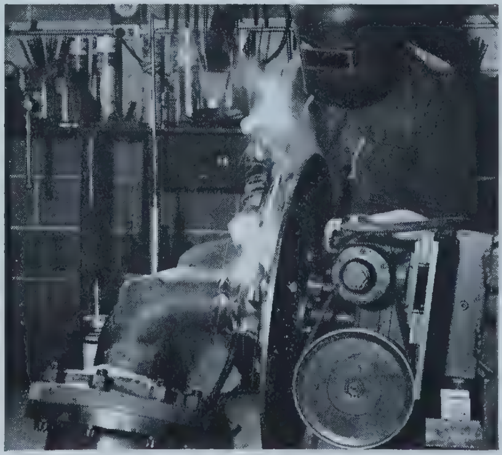
Facilities

Barrington, Illinois

Products

- Ball, Rotary and Swivel Joints
- Flexible Dog-Leg Piping Assemblies
- Electronic Speed Indicators
- Electronic Speed Information Systems (SIS)
- Automatic Wheel Slip Control
- Automatic Ground Protective Relay Reset
- Steam Heat Connectors (for rail cars)





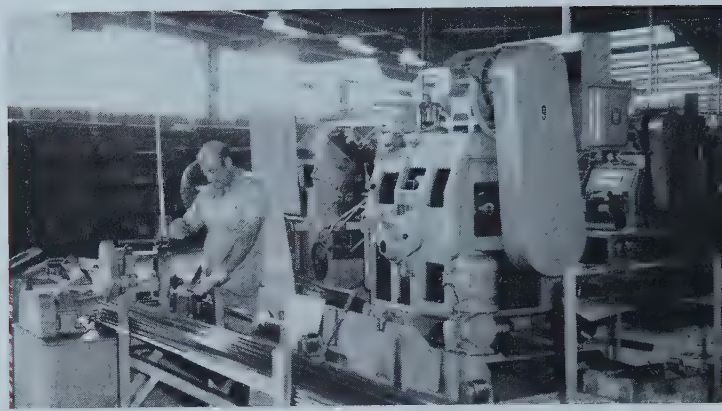
(Above) *Ball joint components and other piping specialty products being machined.* (Left) *Welding of a flanged ball joint.*

Markets . . . *Railroads, Marine, Processing Industries, Plant Maintenance (all industries), Machine Tools, Platen Presses, Construction Equipment, Heating and Piping, Fluid Loading Equipment, Navy and Ordnance, Buildings and Plants, Petrochemicals, Power Plants, Petroleum Industry*

Aeroquip (Canada) Ltd.

Facilities

Toronto, Ontario
Montreal, Quebec
Vancouver, B.C.
Winnipeg, Manitoba
Edmonton, Alberta

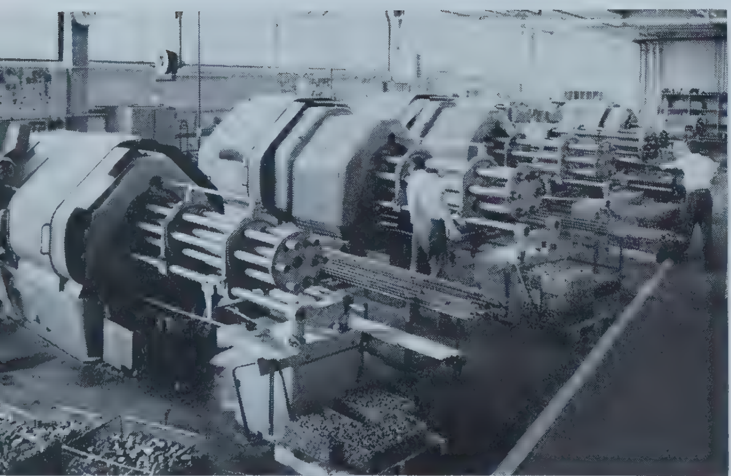


Products

Aeroquip (Canada) Ltd. manufactures most of the Company's product lines and sells all of them.

Markets . . . *a wide range of applications covering nearly every capital goods industry*

Aeroquip WORLDWIDE



Aeroquip G. m. b. H.

Facilities

Baden-Baden
Hann. Muenden
Germany

Products

Aeroquip G.m.b.H. manufactures and sells Aeroquip hose, fittings and couplings primarily for industrial applications.

Markets . . . *a wide range of applications covering nearly every capital goods industry*

(Above right) *Automatic screw machines at the Toronto plant of Aeroquip's Canadian subsidiary.* (Above) *Multiple-spindle automatic screw machines at the Baden-Baden plant of Aeroquip's German subsidiary.*

Distributor Training Program session at Aeroquip's Barco Division

OVER 1,000 DISTRIBUTORS IN THE MAJOR CITIES OF THE UNITED STATES AND CANADA

Licensees:

Melbourne, Australia
Birmingham, England
Paris, France
Torino, Italy
Tokyo, Japan
Glasgow, Scotland
Palamos, Spain

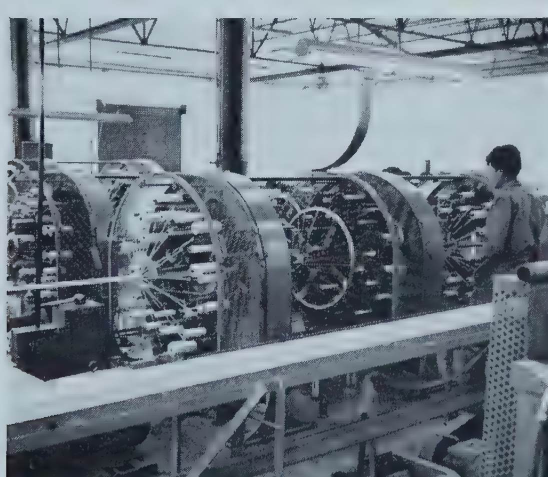
FOREIGN DISTRIBUTORS ARE LOCATED IN 82 CITIES AROUND THE WORLD

Associated Companies

Aeroquip Mexicana, S.A.
  Toluca, Mexico
Edward Yates & Sons, Ltd.
  Marple, Cheshire, England
Toyo Joint Co., Ltd.
  Tokyo, Japan

•

Aeroquip Sulamericana
  Industria e Comercio, S.A.
  Rio de Janeiro, Brazil
  (unconsolidated subsidiary)



Hose braider operations at (above) Aeroquip Mexicana and at (right) Aeroquip Sulamericana.

(Left) Cargo control products being assembled at the Industrial Division's plant in Van Wert, Ohio. (Bottom) Group discussion period at the Industrial Training Center in Jackson, Michigan.

Employees

Wages, salaries and extra benefits totalled $40,798,502 in the 1967 fiscal year. This was 6% more than the $38,321,987 paid or set aside for employees in the prior year. As of September 30, 1967, there were 4,480 employees working for the Company.

Approximately 30% of the total wage cost represented payments by the Company for extra benefits such as retirement benefits, paid vacations and holidays, old age, survivors' and disability insurance, as well as unemployment insurance and workmen's compensation.

In addition, the Company pays for most of the cost of several other benefits in which eligible employees and families can participate. These include life, sickness, accident, hospitalization and surgical insurance coverage.

Stockholders

A recent analysis of Aeroquip's co-owners showed that the Company's 4,781 registered stockholders are residents of 49 states, the District of Columbia and 9 foreign countries. The states with the most stockholders are Michigan, New York, Ohio, Illinois, Pennsylvania and California. There are also an estimated 2,000 beneficial Aeroquip stockholders whose shares are held in brokerage firm names.

Owners of 100 shares or less constitute 63% of the stockholder family. Another 31% own 101 to 500 shares, and 6% of Aeroquip's co-owners hold 500 shares and over.

A large number of employees have an ownership interest in the Company's shares through their participation in Aeroquip's profit-sharing funds. These funds owned 154,710 shares of Aeroquip common stock on September 30, 1967.

Of the 4,781 Stockholders...

34%	25%	26%	15%
are... MEN	WOMEN	JOINT ACCOUNTS	BROKERS, NOMINEES, & OTHERS

Comparative Consolidated Balance Sheets—*As of September 30*

Assets

	1967	1966
CURRENT ASSETS		
Cash and temporary cash investments	**$ 3,300,677**	$ 1,434,981
Accounts receivable (less allowances of $250,000 at September 30, 1967 and $230,000 at September 30, 1966)	**15,776,387**	15,987,273
Inventories, at lower of cost or market	**29,788,422**	29,478,592
Prepaid expenses	**324,779**	207,437
TOTAL CURRENT ASSETS	**$49,190,265**	$47,108,283
PROPERTY, PLANT AND EQUIPMENT		
Land, buildings, machinery and equipment, at cost	**$35,001,546**	$30,533,478
Less accumulated provisions for depreciation and amortization	**13,211,409**	10,996,458
	$21,790,137	$19,537,020
OTHER ASSETS (Notes 2 and 3)	**3,785,680**	2,714,180
TRADEMARKS, PATENTS AND GOODWILL	**1**	1
	$74,766,083	$69,359,484

Liabilities and Stockholders' Equity

	1967	1966
CURRENT LIABILITIES		
Notes payable to banks	**$ —0—**	$ 5,000,000
Accounts payable and accrued expenses	**7,625,738**	11,468,167
U.S. and foreign taxes on income	**2,571,983**	3,799,064
Current maturities on long-term debt	**1,416,300**	1,435,300
TOTAL CURRENT LIABILITIES	**$11,614,021**	$21,702,531
LONG-TERM DEBT (Note 4)	**21,977,300**	12,229,225
STOCKHOLDERS' EQUITY		
Common stock (Notes 5 and 6)	**$ 1,671,128**	$ 1,600,490
Other paid-in capital (Capital surplus)	**20,795,547**	17,235,096
Earnings retained for use in the business (Earned surplus) (Note 4)	**18,708,087**	16,592,142
TOTAL STOCKHOLDERS' EQUITY	**$41,174,762**	$35,427,728
	$74,766,083	$69,359,484

See Notes to Financial Statements.

Comparative Statements of Consolidated...

Earnings

	Year ended September 30 1967	1966
Net sales	**$123,444,427**	$112,780,308
Cost of products sold	**93,849,406**	86,319,536
	$ 29,595,021	$ 26,460,772
Selling and administrative expenses	**15,577,113**	14,464,699
	$ 14,017,908	$ 11,996,073
Royalties and miscellaneous income	**643,535**	462,446
	$ 14,661,443	$ 12,458,519
Interest on borrowed money and other deductions	**1,622,188**	802,634
EARNINGS BEFORE TAXES ON INCOME	**$ 13,039,255**	$ 11,655,885
Provision for U.S. and foreign taxes on income	**5,850,000**	5,375,000
NET EARNINGS	**$ 7,189,255**	$ 6,280,885
NET EARNINGS PER SHARE	**$ 4.30**	$ 3.77*

**Adjusted for 4% stock dividend paid in 1967*

Surplus

	Year ended September 30 1967	1966
CAPITAL SURPLUS		
Balance at beginning of year	**$ 17,235,096**	$ 14,198,302
Excess of quoted market prices over the par value ($1.00) of common stock issued (64,271 shares in 1967 and 76,213 shares in 1966) as a stock dividend (4% in 1967 and 5% in 1966)	**3,406,363**	2,781,775
Excess of option prices over the par value ($1.00) of common stock issued under the Stock Option Plan (6,367 shares in 1967 and 11,062 shares in 1966) (Note 6)	**154,088**	255,019
Balance at end of year	**$ 20,795,547**	$ 17,235,096
EARNED SURPLUS		
Balance at beginning of year	**$ 16,592,142**	$ 14,497,737
Net earnings for the year	**7,189,255**	6,280,885
	$ 23,781,397	$ 20,778,622
Dividends paid per share of common stock:		
Cash—$1.00 in 1967; $0.875 in 1966	**$ 1,602,676**	$ 1,328,492
Stock—4% in 1967; 5% in 1966	**3,470,634**	2,857,988
	$ 5,073,310	$ 4,186,480
Balance at end of year (Note 4)	**$ 18,708,087**	$ 16,592,142

See Notes to Financial Statements.

Notes to Financial Statements

(1) The accompanying consolidated financial statements include the accounts of the Company and all its wholly-owned subsidiaries. Intercompany balances and transactions were eliminated in consolidation.

(2) Other assets include investments and advances of $2,533,072 in an 89% owned Brazilian subsidiary and $880,965 in four foreign affiliated companies. The Company carries these investments at cost which, in the aggregate, was approximately equal to its equity in the net assets of such companies at September 30, 1967. The Brazilian subsidiary has not been consolidated because operations are conducted in terms of a restricted currency.

(3) Includes $65,750 indirectly advanced to officers under a split-dollar insurance program.

(4) Long-term debt obligations of the Company and its wholly-owned subsidiaries are as follows:

	Principal Amount	Current Maturities	Long-Term
Parent Company:			
5⅛% promissory notes to a group of banks payable in $300,000 quarterly installments to June 30, 1973.	$ 6,800,000	$1,200,000	$ 5,600,000
5.32% promissory note to an insurance company payable in $250,000 quarterly installments beginning September 30, 1973	5,000,000	—o—	5,000,000
Loan under revolving credit agreement	10,800,000	—o—	10,800,000
Parent Company Total	$22,600,000	$1,200,000	$21,400,000
Wholly-Owned Subsidiaries:			
Notes to German banks at an effective interest cost of approximately 6%, payable in installments from October 1967 through December 15, 1974....	275,225	56,800	218,425
4% purchase contract executed in connection with the acquisition of a wholly-owned subsidiary, payable in $39,875 quarterly installments to December 31, 1970....	518,375	159,500	358,875
Consolidated Total	$23,393,600	$1,416,300	$21,977,300

The Loan Agreements with the banks and the insurance company impose certain limits on the payment of cash dividends and require the maintenance of a specified minimum working capital. At September 30, 1967, the Company's working capital was $4,260,130 in excess of the minimum working capital required by the Loan Agreement and the same amount was unrestricted for the payment of cash dividends.

The Company has executed a three-year revolving credit agreement with the principal banks participating in the long-term Loan Agreement, which provides for borrowings up to $18,000,000 at the prime rate of interest, plus ¼ of 1%. This revolving credit agreement contains provisions substantially comparable to those existing under the long-term Loan Agreement with the banks.

(5) At September 30, 1967, there were 2,000,000 shares of common stock, $1.00 par value, authorized of which 1,671,128 were outstanding and at September 30, 1966, there were 1,600,490 shares outstanding.

(6) Under the Common Stock Option Plan approved by the shareholders in January, 1959, 9,196 shares of common stock were reserved as of September 30, 1967, for issuance to officers and employees at quoted market prices on the date of grant. Changes in options during the year were as follows:

	Number of Shares	Aggregate Option Amount
Outstanding, October 1, 1966........	16,178	$411,138
Add (deduct):		
Granted during the year..........	—o—	—o—
Exercised during the year.........	(6,367)	(160,455)
Forfeited during the year.........	(615)	(16,731)
Outstanding, September 30, 1967	9,196	$233,952

(7) Depreciation and amortization charged to costs and expenses amounted to $2,320,678 in 1967 and $1,879,552 in 1966.

(8) In the 1967 and the 1966 fiscal years, $500,000 and $494,000 respectively was charged to expense for contributions to pension plans for various groups of employees. Unfunded past service costs as of the June 30, 1967 anniversary dates of the plans, are estimated by independent actuaries to be $4,400,000.

(9) On January 14, 1965, a Justice Department anti-trust indictment was returned by a Federal grand jury in Detroit, Michigan, alleging that various companies in the hose-coupling industry, including Aeroquip Corporation, have engaged in an unlawful combination in restraint of trade in that they sought to secure a favorable price classification from their suppliers for the purchase of hydraulic hose. The Company denies any violation of the anti-trust laws and a plea of not guilty has been entered. In the opinion of management and counsel for the Company, the charges made in the indictment are without foundation.

ARTHUR ANDERSEN & CO.

To the Stockholders and
Board of Directors,
AEROQUIP CORPORATION,
Jackson, Michigan:

We have examined the consolidated balance sheet of AEROQUIP CORPORATION (a Michigan corporation) AND SUBSIDIARIES as of September 30, 1967, and the related statements of consolidated earnings and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated earnings and surplus present fairly the financial position of Aeroquip Corporation and Subsidiaries as of September 30, 1967, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

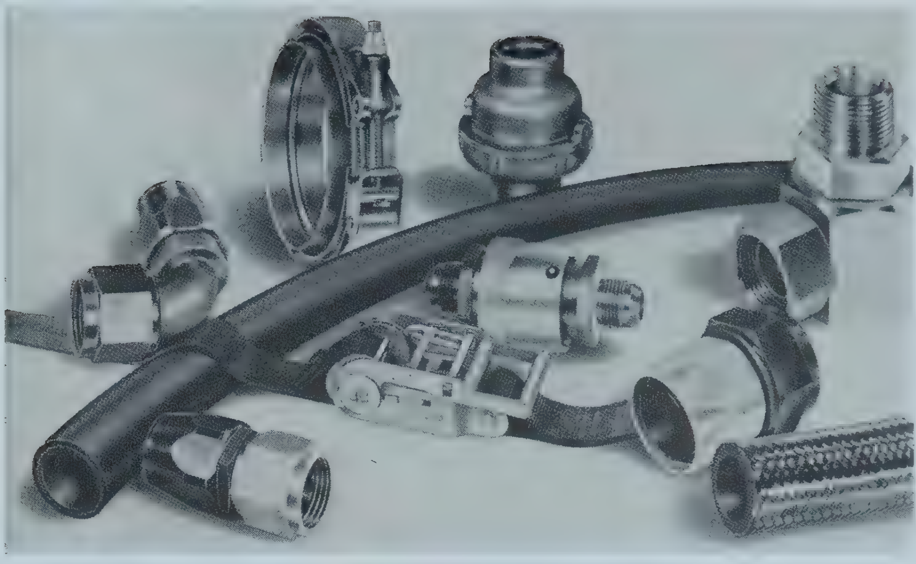
Arthur Andersen & Co.

Detroit, Michigan, November 7, 1967.

10 Year Review

	1967	1966	1965
Net Sales	**$123,444,427**	$112,780,308	$85,867,449
Industrial Sales (% of Total)	**64%**	68%	70%
Military Sales (% of Total)	**36%**	32%	30%
Earnings Before Taxes on Income	**$ 13,039,255**	$ 11,655,885	$ 8,178,943
Provision for Income Taxes	**$ 5,850,000**	$ 5,375,000	$ 3,750,000
Net Earnings	**$ 7,189,255**	$ 6,280,885	$ 4,428,943
Per Share Earnings*	**$ 4.30**	$ 3.77	$ 2.68
Dividends Paid in Cash	**$ 1,602,676**	$ 1,328,492	$ 980,580
Per Share Cash Dividends*	**$ 0.96**	$ 0.80	$ 0.59
Stock Dividends	**4%**	5%	4%
Earnings Retained for Use in the Business	**$ 5,586,579**	$ 4,952,393	$ 3,448,363
Depreciation and Amortization	**$ 2,320,678**	$ 1,879,552	$ 1,693,950
Capital Expenditures	**$ 4,876,000**	$ 4,744,000	$ 4,070,000
Engineering Expenditures	**$ 4,649,000**	$ 4,115,000	$ 3,911,000
Total Current Assets	**$ 49,190,265**	$ 47,108,283	$34,695,820
Total Current Liabilities	**$ 11,614,021**	$ 21,702,531	$13,653,898
Working Capital	**$ 37,576,244**	$ 25,405,752	$21,041,922
Current Ratio	**4.24 to 1**	2.17 to 1	2.54 to 1
Property, Plant & Equipment—Net	**$ 21,790,137**	$ 19,537,020	$16,499,218
Plant Area—Square Feet	**2,056,111**	2,006,278	1,785,876
Long-Term Debt	**$ 21,977,300**	$ 12,229,225	$ 8,444,025
Stockholders' Equity	**$ 41,174,762**	$ 35,427,728	$30,209,254
Book Value Per Share*	**$ 24.64**	$ 21.28	$ 18.28
Total Assets	**$ 74,766,083**	$ 69,359,484	$52,307,177
Common Shares Outstanding	**1,671,128**	1,600,490	1,513,215
Common Shares Outstanding, adjusted for stock dividends	**1,671,128**	1,664,509	1,652,429

* Based on shares adjusted for stock dividends. Per share cash dividends differ from dividends paid per share due to changes in the number of shares outstanding during the fiscal years.



1964	1963	1962	1961	1960	1959	1958
Years Ended September 30						
$77,257,179	$62,006,295	$57,511,615	$48,036,886	$52,325,461	$48,232,437	$35,686,930
67%	61%	59%	58%	61%	60%	56%
33%	39%	41%	42%	39%	40%	44%
$ 8,136,671	$ 6,811,839	$ 6,743,644	$ 4,265,295	$ 5,763,079	$ 5,551,092	$ 1,996,458
$ 3,950,000	$ 3,550,000	$ 3,710,000	$ 2,450,798	$ 3,001,190	$ 2,856,233	$ 1,013,735
$ 4,186,671	$ 3,261,839	$ 3,033,644	$ 1,814,497	$ 2,761,889	$ 2,694,859	$ 982,723
$ 2.54	$ 1.99	$ 1.85	$ 1.11	$ 1.69	$ 1.65	$ 0.60
$ 800,285	$ 567,527	$ 507,992	$ 497,167	$ 477,654	$ 462,867	$ 457,268
$ 0.49	$ 0.35	$ 0.31	$ 0.30	$ 0.29	$ 0.28	$ 0.28
4%	4%	5%	2%	4%	3%	5%
$ 3,386,386	$ 2,694,312	$ 2,525,652	$ 1,317,330	$ 2,284,235	$ 2,231,992	$ 525,455
$ 1,413,140	$ 1,110,836	$ 944,357	$ 944,552	$ 825,339	$ 713,379	$ 632,393
$ 5,042,000	$ 1,606,000	$ 3,019,000	$ 1,187,000	$ 3,028,000	$ 1,423,000	$ 844,000
$ 3,394,000	$ 2,645,000	$ 2,062,000	$ 2,065,000	$ 1,947,000	$ 1,725,000	$ 1,549,000
As of September 30						
$30,167,590	$22,559,056	$22,650,932	$18,044,599	$16,956,718	$17,704,326	$12,831,829
$ 9,471,757	$ 8,579,346	$10,578,811	$ 7,314,919	$ 6,902,584	$ 7,419,720	$ 4,187,270
$20,695,833	$13,979,710	$12,072,121	$10,729,680	$10,054,134	$10,284,606	$ 8,644,559
3.19 to 1	2.63 to 1	2.14 to 1	2.47 to 1	2.46 to 1	2.39 to 1	3.06 to 1
$14,105,185	$10,395,243	$10,024,937	$ 8,141,801	$ 8,083,111	$ 6,031,739	$ 5,285,651
1,635,678	920,398	908,548	721,943	714,563	534,058	446,558
$ 9,208,228	$ 1,675,028	$ 2,148,726	$ 1,523,225	$ 2,120,450	$ 2,350,000	$ 2,200,000
$26,690,631	$23,168,452	$20,454,057	$17,884,118	$16,545,226	$14,242,371	$11,962,689
$ 16.19	$ 14.11	$ 12.47	$ 10.92	$ 10.13	$ 8.73	$ 7.35
$45,370,616	$33,422,826	$33,181,594	$26,722,262	$25,568,260	$24,012,091	$18,349,959
1,451,772	1,389,765	1,335,333	1,269,646	1,242,919	1,194,135	1,156,944
1,648,746	1,641,458	1,640,257	1,637,548	1,633,093	1,631,754	1,628,366

Officers

Peter F. Hurst
Chairman of the Board and President

Don T. McKone
Executive Vice President

B. A. Main, Jr.
Vice President, Engineering

Kent R. Manning
Vice President and General Manager, Aircraft Division

W. F. Rogge
Vice President and General Manager, Industrial Division and Republic Rubber Division

J. M. Van Dam
Vice President and General Manager, Marman Division

J. O. Heyworth
Vice President and General Manager, Barco Division

F. M. Davison
Treasurer

F. W. Corwin
Secretary

D. A. Rumgay
President, Aeroquip (Canada) Ltd.

H. W. Kunth
General Manager, Aeroquip G.m.b.H. Germany

Directors

Peter F. Hurst
Chairman of the Board and President, Aeroquip Corporation

Edward Adams, Jr.
President, National Bank & Trust Co. of Ann Arbor, Ann Arbor, Michigan

Floyd A. Bond
Dean, Graduate School of Business Administration, University of Michigan, Ann Arbor, Michigan

Clifford H. Domke
Partner, Badgley, Domke, McVicker & Marcoux, Attorneys, Jackson, Michigan

Charles Hollerith
Consulting Engineer

B. A. Main, Jr.
Vice President, Aeroquip Corporation

Don T. McKone
Executive Vice President, Aeroquip Corporation

Walter E. Schirmer
President, Clark Equipment Company, Buchanan, Michigan

TRANSFER AGENTS

IRVING TRUST COMPANY
New York, N. Y.

NATIONAL BANK OF DETROIT
Detroit, Michigan

REGISTRARS

MANUFACTURERS HANOVER TRUST COMPANY, *New York, N. Y.*

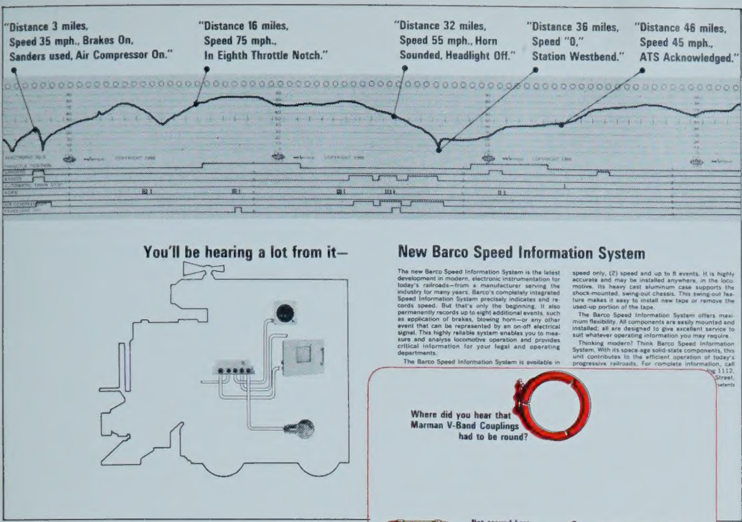
DETROIT BANK & TRUST COMPANY
Detroit, Michigan

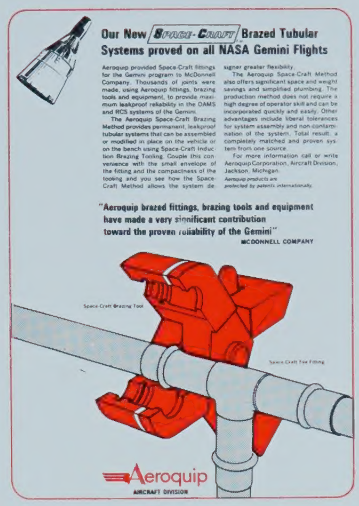
LEGAL COUNSEL

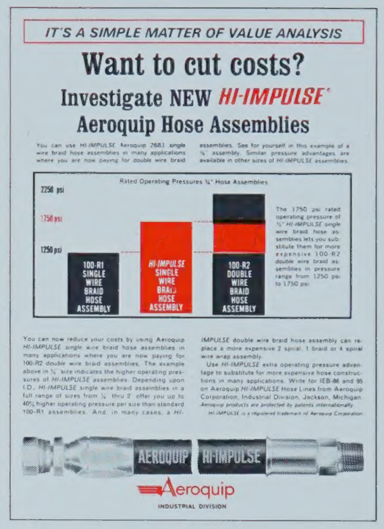
BADGLEY, DOMKE, MCVICKER & MARCOUX
Jackson, Michigan

TRADED

NEW YORK STOCK EXCHANGE







Advertising...

At Aeroquip, advertising is recognized as a primary tool for building sales. This is especially so in the increasingly competitive markets in which the Company operates.

In the 1967 fiscal year, a very comprehensive advertising program was carried out by the Company, which included:

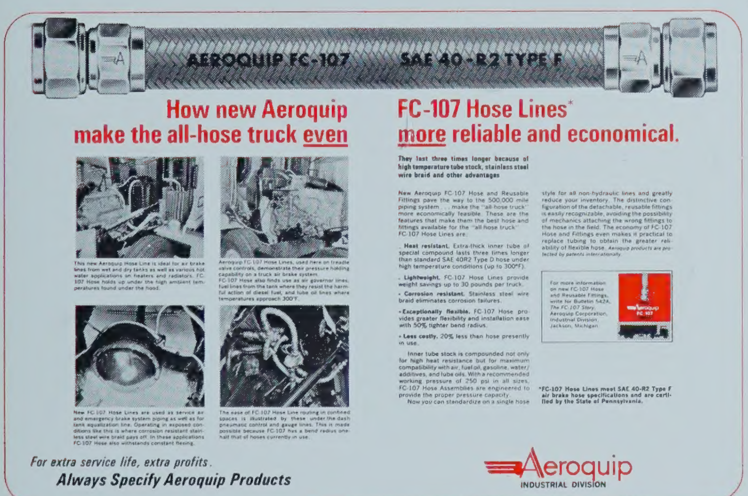
250 advertisements totalling 915 insertions in 130 publications.

5,000,000 catalogues, promotion pieces, direct mail folders and calendars.

631 telephone directory advertisements and 182 highway signboards.

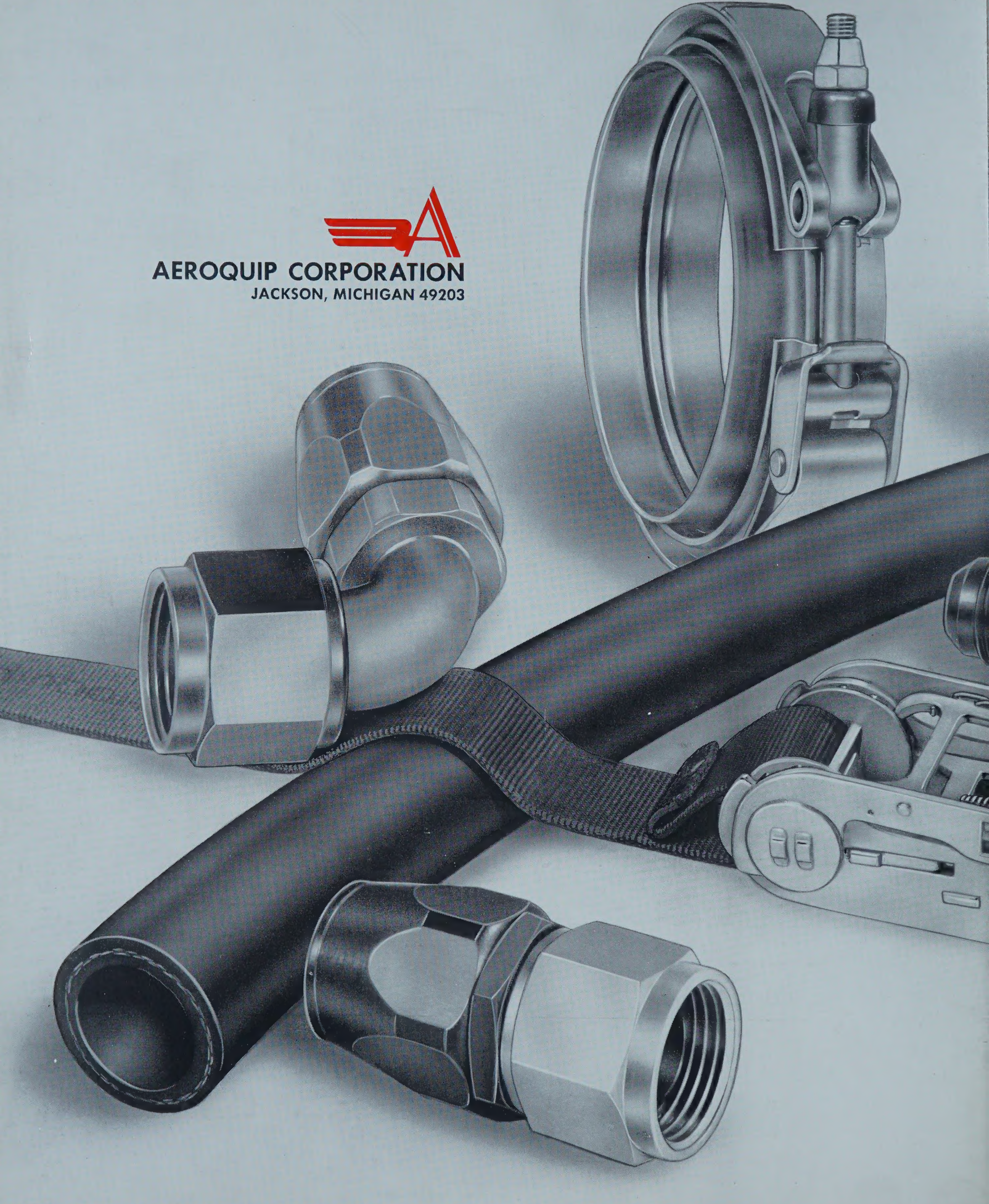
42,000 copies of each issue of Aeroquip's magazine, The Flying "A", were distributed throughout the world.

34 trade show participations by the Company and 45 by Aeroquip distributors.



Designed and Produced by PICK-S, New York

AEROQUIP CORPORATION
JACKSON, MICHIGAN 49203



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AEROQUIP CORPORATION

JACKSON, MICHIGAN 49203

November 27, 1967

To Our Stockholders:

I wish to bring to your attention a joint announcement made on November 13, 1967 by Mr. D. C. Burnham, President of Westinghouse Electric Corporation, and myself, which stated that Aeroquip and Westinghouse are involved in discussions looking toward the acquisition by Westinghouse of Aeroquip's business as a going concern in exchange for a combination of Westinghouse voting cumulative preference and common stocks. It is contemplated that Aeroquip's identity would be preserved as it would be continued as a separate subsidiary of Westinghouse.

In the exchange, Aeroquip stockholders would receive, for each three shares of Aeroquip stock, 1.07 shares of Westinghouse common stock and one share of cumulative preference stock. The preference stock would have a dividend rate of $4.30 per share and each share would be convertible at any time into two shares of Westinghouse common stock. The discussions contemplate that, if the average of the high and low sales prices of Westinghouse common stock on the day next preceding the date an agreement is executed, is less than $68 per share or more than $74 per share, the financial basis for the acquisition will, at the request of Aeroquip or Westinghouse, be reconsidered. The other rights and privileges of the Westinghouse cumulative preference stock that would be issued if the transaction is effected, and the other terms and conditions upon which the acquisition would be made, have not yet been negotiated.

The proposed arrangement is conditioned upon the execution of an agreement between the two companies, approvals of the Westinghouse Board of Directors and of Aeroquip's Directors and stockholders, and the receipt of appropriate tax rulings.

In view of this development, the regular Annual Meeting of the Company's stockholders, which normally would be held on January 22, 1968, is being postponed. Instead, a Special Meeting will be called as soon as practicable to consider and take action with respect to the acquisition referred to above. If such Special Meeting cannot be called within a reasonable time, then a Special in lieu of Annual Meeting will be called to elect Directors and to transact such other business, if any, as would have been transacted at the Annual Meeting.

Sincerely,

Peter Hurst

PETER F. HURST
Chairman of the Board and President